Forbes

Reprinted February 2021

3 New Retirement Rules That May Change Retirement As We Know It

By Jackie Campbell

Jackie Campbell

As I often mention to my clients, a successful retirement plan is one that must be not only created and written but also revisited annually to account for changes we can and cannot control. There are three pending proposals being considered in Congress that may change the landscape of retirement savings and distributions. The goals are to increase the flexibility of retirement savings, correct the Social Security solvency, and added protection for those receiving pensions. There are many advantages and a few drawbacks that will come at a cost to the working class, small business owners, and beneficiaries.

It's important to keep an eye on the progression of these bills so that you will have adequate time to adjust your cash flow in your personal retirement plan and determine the impact on your projected retirement date and savings. There will also be considerations for revised tax and estate planning for non-spouse inheritances of retirement plans.

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act)

The first bill passed earlier this year in the U.S. House of Representatives with a 417-3 vote. There has been little progress in the Senate since then. The main objective for this Tax Act is to expand an individual's access to their retirement savings. Here is a summary of the key provisions:

Retirees — Required minimum distributions (RMDs) will change from 70 1/2 to age 72 for mandatory distributions from your IRAs, 401(k), 403(b) and other employer-sponsored retirement plans. This can be helpful when you don't need the additional income. It also allows for tax-efficiency planning during the lower income years in retirement, which can range from age 60 to age 72. Consider making Roth IRA conversions during this 1 1/2 year time frame, collecting your distributions to fund life insurance, and pursuing planned charitable giving options.

Employees — It will allow an inclusion of annuities and other lifetime income options to 401(k) plan participants. This can advantageous where there continues to be a reduction of employer-provided pensions, resulting in the need to create your own personal pension. Another change will allow qualified contributions to individual retirement accounts beyond age 70 1/2. Traditional IRAs will become like Roth IRAs without an age restriction. In order to make qualified contributions, other IRS requirements must be met and remain unchanged at this time.

Employers — Some of the extended provisions will also cost business owners, with additional matching contributions and increased professional fees for revisions in the plan documents, to maintain compliance with federal and state laws.

Increased tax credits will be available for startup costs up to 50% of a small business's new retirement plan. This increases from $500 annually to $5,000 maximum tax credit.

Beneficiaries — The bill proposed a major change in reducing the ability for an inherited stretch IRA for beneficiaries, which can be a disadvantage for estate planning. There will be a 10-year time limit for a non-spouse beneficiary to defer the distributions and income taxes on an inherited IRA. It will force taxation of retirement plans that are inherited in the first year or no later than 10 years from the inheritance. There are exceptions for non-spouse beneficiaries who are disabled, a minor, or chronically ill. Distributions for these exceptions would be over their life expectancy, although the exception for minors would end once they reach the age of majority with the final distribution to be taken within 10 years.

Spousal beneficiaries continue to be able to stretch and delay the inherited account's required minimum distributions (RMDs) until the end of the 72nd year of the deceased spouse. The delay was allowed until age 70 1/2 before this new proposed law.

Social Security 2100 Act

This new bill was introduced by Rep. Larson, D-Conn., in July 2019 and the objective of this tax act is to fix the solvency of the Social Security program into the next century.[1] If no changes are made, it is projected that in 2035, the trust funds of Social Security will run out. If this happens, the promised amounts to be paid are 80% of current benefits. This would have an adverse lifelong impact on the retirement income of Americans, many of whom rely solely or partially on Social Security retirement benefits to cover their necessary living expenses.

Employees and Employers — The bill requires raising payroll taxes to pay for the solvency correction. Increased Social Security taxes will be paid by current workers and the employers. The Social Security rates currently paid by an employee and matching paid by an employer is 6.2% up to maximum earnings each year of $132,900. The proposed increase is 7.4% for employees and employers up to a maximum annual salary of $400,000. For example, if an employee is making $250,000 in wages, their additional Social Security taxes will increase by $10,260 annually. The employer's expense will increase by this same amount. The additional cost will likely result in lower wage increases and lower retirement plan contributions by employees.

Social Security Recipients — Those currently receiving Social Security benefits may receive a reduction in federal taxes paid on their Social Security income. Currently, taxation of up to 85% of Social Security benefits begins when non-Social Security income exceeds $25,000 for individuals and $32,000 for couples. The amounts would increase under this proposed bill to $50,000 for individuals and $100,000 for couples.

Rehabilitation for Multi-Employer Pensions Act

This bill passed in the House of Representatives on July 24, 2019, in a 264-169 vote. The objective of this new bill is to allow pension plans to borrow money in order to remain solvent and continue paying retirees. If passed, the new legislation would create a trust fund that lends money to the pension plans as financial solvency remains to be an issue with many private and public pension plans.

If any of these three pending proposals pass, there could be many positive changes for employees, employers, and retirees. The costs of the SECURE Act, Social Security 2100 Act, and Rehabilitation for Multi-Employer Pensions Act will be paid by the working class, small business owners, and beneficiaries. Monitoring the progression of these bills and the ever-changing tax code will be important to allow for timely planning and revisions necessary in your personal retirement plan, tax plan, and estate plan.

For sourcing and more information, please visit https://www.forbes.com/sites/impactpartners/2019/09/25/3-new-retirement-rules-that-may-change-retirement-as-we-know-it/#3f95d6361b2e.